Policy Analysis for California Education (PACE) is an independent, non-partisan research center based at the University of California Berkeley, the University of Southern California, and Stanford University. PACE seeks to define and sustain a long-term strategy for comprehensive policy reform and continuous improvement in performance at all levels of California’s education system, from early childhood to post-secondary education and training. To accomplish this goal, PACE bridges the gap between research and policy, working with scholars from California’s leading universities and with state and local policymakers to increase the impact of academic research on educational policy in California.

Now in its 25th year, PACE:

- publishes policy briefs, research reports, and working papers that address key policy issues in California’s education system.
- convenes seminars and briefings that make current research accessible to policy audiences throughout California.
- provides expert testimony on educational issues to legislative committees and other policy audiences.
- works with local school districts and professional associations on projects aimed at supporting policy innovation, data use, and rigorous evaluation.

Acknowledgments

This volume represents PACE’s effort to sustain public focus on a long-term reform agenda grounded in rigorous objectivity, careful analysis, and innovative policy thinking. This study was funded by the generous support of the William and Flora Hewlett Foundation and the James Irvine Foundation.

Production of Conditions of Education was led by David Plank. Additional support was provided by Melissa Henne, Doug Kearney, Cecilia Lucas, Sitome Mebrahtu, and Jessica Rigby. Many thanks to Joanne Klein for her artistic sense and design of this volume. She provided essential support.

Finally, we want to express deep gratitude to our various reviewers, who gave critical and timely feedback. Any expressed views are those of the authors, and do not necessarily represent the beliefs of PACE’s funders.
# Table of Contents

**ACKNOWLEDGMENTS** ........................................................................................................................................................ ii

**INTRODUCTION** ................................................................................................................................................................... 1

**David Plank**

**CHAPTER 1** Benchmarking Improvements for Students of Color and English Learners ....................... 5

**Patricia Gándara and Megan Hopkins**

**CHAPTER 2** California’s Teachers ........................................................................................................................ 17

**Susanna Loeb and Marsha Ing**

**CHAPTER 3** Lifting Low-Achieving Students and Schools ........................................................................ 27

**Bruce Fuller and Lynette Parker**

**CHAPTER 4** The Transition From High School to Postsecondary Education ...................................... 35

**W. Norton Grubb**

**CHAPTER 5** Financing California’s Public Schools ........................................................................................ 49

**Jon Sonstelie**

**CHAPTER 6** Recent Developments in California’s Educational Governance ........................................ 61

**Dominic J. Brewer, Icela Pelayo and June Ahn**

**CONTRIBUTORS** ................................................................................................................................................................ 71
INTRODUCTION

N MARCH 2007, GOVERNOR ARNOLD SCHWARZENEGGER DECLARED THAT 2008 WOULD BE THE “YEAR OF EDUCATION” IN CALIFORNIA. A WISE OBSERVER OF THE EDUCATION POLICY SYSTEM SOON POINTED OUT THAT THE ONLY CERTAIN IMPLICATION OF THE GOVERNOR’S DECLARATION WAS THAT 2007 WOULD NOT BE THE YEAR OF EDUCATION. This proved to be true, and—as it turned out—2008 was not the “Year of Education” either. Some progress has been made on discrete issues including the development of a student-level data system, but the daunting challenges facing California’s education system remain to be addressed.

Most observers of California’s education system agree that major changes will be needed to bring about big improvements in the performance of the state’s schools. The release of the “Getting Down to Facts” (GDTF) studies in 2007 set the table for these changes, providing a thorough diagnosis of the state’s educational challenges and defining the agenda for systemic educational reform. The Governor’s Committee on Educational Excellence (GCEE) released their own report early in 2008, proposing a thoughtful and comprehensive strategy for reform that promised dramatic improvements in the performance of California’s schools and students.

Both the GCEE and the directors of GDTF recognized that improving the performance of California’s education system would require a large increase in the quantity of resources that the state provides for the education system. They also agreed that simply putting more money into the state’s present system would not lead to dramatic improvements in system performance. They therefore proposed a grand bargain, under which the state would provide a substantial increase in funding for schools while simultaneously requiring significant changes in the way the education system operates.

The odds that such a bargain would be struck grew longer with the advent of a severe budget crisis at the beginning of 2008, and fell practically to zero when Governor Schwarzenegger walked away from the GCEE report. Some lingering hopes remained for progress on relatively low-cost but strategically important changes, including the development of a comprehensive education data system and the consolidation of categorical funding streams, but significant action on even these fronts has also been deferred.

The most significant policy development of 2008 was instead a new mandate from the State Board of
The need for systemic improvement in California’s education system nevertheless remains urgent. The performance of California’s students continues to lag behind students in other states, and the achievement gaps that threaten to leave many of the state’s young people behind remain wide.

In re-launching Conditions of Education, we aim to build on PACE’s unique strengths to produce a report that keeps the big picture in focus. Educational reform may advance under a variety of banners, including legislative action, lawsuits, and ballot initiatives. No matter how reform moves forward, though, positive change must be based on an accurate diagnosis of the issues facing California’s education system, and on a comprehensive strategy for educational improvement. Conditions of Education is intended to provide that diagnosis, and to sustain public focus on a long-term reform agenda grounded in the rigorous objectivity, careful analysis, and innovative policy thinking for which PACE is known.

Outline of the Volume
In this edition of Conditions of Education we have asked six of the leading academic authorities on education policy in California to address key issues facing the state’s education system, focusing their attention on critical indicators of current performance and on specific policy changes that would lead to sustained improvement. Our goal is to identify benchmarks that can be tracked over time, including indicators of system performance and also indicators of policy progress toward comprehensive educational reform. Subsequent editions will return to these same indicators, to determine whether California’s education system is moving in the right direction.

Our goal is to identify benchmarks that can be tracked over time, including indicators of system performance and also indicators of policy progress toward comprehensive educational reform. Subsequent editions will return to these same indicators, to determine whether California’s education system is moving in the right direction.
tively well on state and national assessments, while the performance of Latino, African American, and Native American students lags far behind. California’s failure to ensure academic success for the majority of the state’s students has dire implications not only for the students themselves, but for California’s economic and political future.

The most important determinant of student learning is the quality of teaching, and providing excellent teachers in all of California’s classrooms should be the top priority for those who seek to improve the performance of schools and students. Susanna Loeb and Marsha Ing present a rich array of data on California’s teachers in the second chapter, with a particular focus on the obstacles that must be overcome to ensure that the schools and students with the greatest needs are fully staffed with great teachers.

Bruce Fuller and Lynette Parker look at achievement gaps from a different angle in the third chapter, reviewing performance trends in California’s schools and assessing state policies aimed at improving the performance of schools where performance falls short. There has been significant improvement in the performance of schools and students over time, according to California’s Academic Performance Index (API), but gaps in performance between schools serving more and less privileged students have not narrowed and state efforts to assist low-performing schools are mostly ad hoc and ineffective.

California nevertheless continues to raise the bar for students. It is now generally assumed that all students should graduate from high school, and there is growing pressure to increase the number of young people who move on to post-secondary education (PSE) and training. In the fourth chapter, Norton Grubb surveys the complex array of issues that must be addressed in order to expand access to PSE and ensure that all students are prepared for college and careers.

Jon Sonstelie offers a brief description of California’s complex system of educational finance in the fifth chapter. He shows that California provides relatively few resources per student when compared with other states, and that the amount of resources provided for each student differs significantly but not always systematically across districts with different characteristics, including size and the share of students living in poverty.

Perhaps the main obstacle to comprehensive reform in California’s education system is the overlapping network of institutions that share responsibility for educational governance. In the final chapter of the volume Dominic Brewer, Icela Pelayo and June Ahn survey the many ways in which the state’s governance system impedes change, and present new data on how California’s governance system is perceived by key stakeholders.

**A Strategy for Comprehensive Education Reform**

Three key themes run through all of the chapters, drawing together a diverse set of policy recommendations:

- California’s education system must become a learning system committed to continuous improvement. The key features of a learning system include clear and specific goals; timely, reliable information on performance at all levels; strong capacity to support change; decision-making flexibility; and aligned incentives. Instead of demanding compliance with state mandates, a continuously improving system would support local innovation and experimentation, rigorous evaluation of new policies and practices, and the establishment of networks and partnerships to share information among schools and school districts.

- Local schools and school districts should have additional flexibility to decide how best to use resources to address the needs of their students. The proliferation of categorical funding streams and policy mandates from the state imposes large compliance burdens on local administrators. Removing these burdens and allowing schools and school districts to respond to local circumstances would open the door to improved performance, especially as the state develops mechanisms to share knowledge more widely.

- Additional resources must be targeted to the schools and students who need them most. California’s future prosperity relies on a sufficient supply of qualified workers, and on an engaged and productive citizenry. The performance of all of the state’s students must be improved, but California needs to focus especially on the young people who are now farthest behind.
Together, these three themes represent the key elements of a long-term strategy for systemic change and dramatically improved performance in California’s education system. Consistency with these principles is a key criterion for evaluating whether specific reform proposals can be expected to move California closer to, or further from, the goal of comprehensive educational reform.

**Looking Forward**

The “Year of Education” remains in California’s future, and all signs suggest that it won’t arrive soon. The grand bargain foreseen by GDTF and GCEE has been postponed, but the urgency of comprehensive educational reform has not diminished. The authors of the chapters that follow suggest many steps that the Governor and the Legislature can take now to improve the educational opportunities that California provides for our young people, while advancing the long-term goal of comprehensive educational reform. PACE remains committed to that goal, and the revival and regular publication of *Conditions of Education* is a key part of our strategy for accomplishing it. In future editions we will track California’s progress toward the restoration of an education system that keeps the promise of future prosperity for young people, and for our state.
California’s School Finance System Certainly Has Its Critics. Based on Their Review of Recent Research, Loeb, Hanushek, and Bryk (2007) Conclude That California’s System Is “Extraordinarily Complex and Has No Coherent Conceptual Basis.” In its final report, the Governor’s Committee on Education Excellence (2007) reached a similar conclusion: “Our current system is not equitable, it is not efficient, and it is not sufficient for students who face the greatest challenges.”

While some of these criticisms are surely overblown, just as surely California’s system is long overdue for some deep pruning and fundamental reshaping. The system was uprooted in the 1970s by a radical court ruling and a reactionary popular initiative. Since that time, it has grown in fits and starts, with new elements added almost every year. The result is a thicket of programs and policies that tend to obscure an underlying foundation that can be the basis for a coherent school finance system. The challenge is to uncover that foundation.

This chapter proposes several steps that the state can take to address that challenge. The chapter sets the stage for that proposal with two preliminary tasks. The first is to describe California’s school finance system, the channels through which state and local tax revenue flows to the state’s public schools. The second is to analyze the flow of revenue from that system and its consequences for school resources. How do the resources of California schools compare to those in other states? How do resources vary among California schools? The final section outlines three general principles that should guide the reshaping of California’s school finance system and a few initial steps the state might take on the pathway to reform.

California’s School Finance System

California’s school finance system has changed over time as new revenue programs are added and existing programs modified. This section describes the system as it existed in 2004-2005, the most recent fiscal year with complete data on all revenue programs. In that year, approximately 6,000,000 students were enrolled in California’s more than 9,000 public schools. The schools were organized into 974 school districts: 557 elementary districts, 83 high school districts, and 334 unified districts, which educate students in all grades. The districts varied significantly in size. Los Angeles Unified School District had more
than 700 schools and 700,000 students. On the other hand, 99 districts had fewer than 100 students. Most of these districts had just one school.

School districts are overseen by county offices of education in all 58 California counties. Six counties have only one school district; the Los Angeles County Office of Education oversees 80 school districts. In addition to their oversight role, county offices educate students who are in juvenile detention centers, who have been expelled from regular schools, or who need an alternative to regular schools to continue their education. County offices may also provide special education services to districts in their county.

A small, but increasing, share of public school students are enrolled in charter schools, which are free of many restrictions in place in other public schools. In 2004-2005, about 3 percent of the state’s public school students were enrolled in one of 507 charter schools.

The system that channels tax revenue to these schools, districts, and county offices is a product of court rulings, popular initiatives, and the response of the state legislature to those rulings and initiatives. The most important ruling is Serrano v. Priest in 1971. At the time, school districts in California levied their own property tax rates. Because property wealth differed across districts, property tax revenue also differed. In Serrano, the California Supreme Court ruled that district revenue differences due to wealth differences violated the equal protection clauses of the state and federal constitutions.

The most important initiative was Proposition 13 in 1978. The initiative capped property tax rates throughout the state and gave the legislature authority to allocate property tax revenue. Armed with that authority and mindful of the Serrano ruling, the legislature acted to equalize revenue among districts. Its instrument was a revenue limit it assigned to each district. It then allocated to each a portion of the property tax revenue raised within the district’s boundaries and supplemented that revenue with aid from the state’s general fund to make up the difference between the district’s revenue limit and its property tax revenue. Revenue limits were initially based on the sum of state aid and property tax revenue in 1972-1973 and have been increased over time. Districts with low per-student limits received larger increases than other districts, tending to equalize revenue per student across districts. In 2004-05, revenue limit funding constituted 62 percent of the $8,157 per student school districts received from all sources for operating expenses.

Despite efforts to equalize revenue limit funding per student, significant differences remain. Revenue limits were equalized within groups of districts defined by type (elementary, high school, and unified) and by size (small and large). Revenue limits were increased more for districts whose per-student limits were low relative to those of other districts in their group. Leveling up in this manner narrowed differences at the lower end of the revenue limit distribution, but left differences at the upper end. Furthermore, because equalization has occurred within groups, there are substantial differences across groups. In addition, when the state changed its rules for counting student attendance, it raised revenue limits for districts that would be adversely affected by these changes, increasing inequality within groups.

The inequalities in revenue due to inequalities in revenue limits are compounded by various additions to revenue limit funding. Because the per-student expense of operating a very small school is relatively high, districts that must maintain small schools to serve isolated rural populations receive additional state aid. In 2004-2005, more than 13,000 students attended one of these necessary small schools, and 146 districts received additional funding for these schools. Revenue limit funding for necessary small schools averaged $8,412 per student, more than $3,000 per student greater than average revenue limit funding for other schools. Other additions in revenue limit funding can be traced to special programs funded by property taxes before Proposition 13. For example, 375 school districts receive additional state aid because of a “Meals for Needy Pupils” program predating Proposition 13. For these
districts, the additional state aid averaged $46 per student. Finally, the property tax revenue allocated to a district may exceed its revenue limit. In that case, districts retain these "excess taxes." In 2004-2005, 73 districts had excess taxes, and the average excess tax was $1,521 per student. Most of these districts were small, however; they enrolled less than 3 percent of the state's students. Averaged over all districts, excess taxes were $38 per student.\footnote{2}

Revenue limit funds can be used for any legitimate purpose. Besides these unrestricted funds, several other programs provide districts with revenue for particular purposes.\footnote{3} In 2004-2005, the state lottery provided 2 percent of school district revenue. Eighty-five percent of those funds were unrestricted; 15 percent were restricted to the purchase of instructional materials.

The biggest restricted (categorical) program was special education, which provides funds for the education of students with disabilities. Funds are allocated in a manner similar to revenue limit funding. Each district has a base rate (a dollar amount per student), and its revenue entitlement is the product of its base rate and the number of students attending the district.\footnote{4} This entitlement is based on the total number of students in the district, not the students requiring special education services. Local property taxes and federal special education aid is subtracted from that entitlement to determine state aid. State aid and local property taxes averaged $517 per student; federal aid was $167 per student. Special education funding from all sources constituted 8 percent of district revenue.

As with revenue limits, special education base rates were initially determined by historical allocations and then modified over time to reduce differences in those rates. There are still substantial differences across districts, however, and some districts receive upward adjustments to compensate for unusually high rates of certain disabilities in 1997. In addition, districts and county offices receive funds for students who require placement in high-cost nonpublic schools.

Though special education is the largest categorical program, the state has created many others. In 2004-2005, California school districts received about 11 percent of their revenue from these programs. The largest was Title I, which is targeted for disadvantaged students. About 30 percent of federal revenue is allocated through this program.

Districts also receive local tax revenue. Property tax revenue is typically classified as a local revenue source, and it did constitute 22 percent of revenue in 2004-2005. However, because Proposition 13 sets the property tax rate throughout the state and because the legislature determines the allocation of revenue raised by that rate, in California the property tax is properly classified as state tax revenue. The only significant tax determined by school districts is the parcel tax, a tax on parcels of

---

\textbf{In 2004-2005, 20 other state programs targeted disadvantaged students. The combined revenue of all state programs targeting disadvantaged students constituted about 5 percent of district revenue.}
While the legislature has considerable discretion in the allocation of funds through these programs, the total allocation to K-12 education (and community colleges) is subject to a constitutional minimum established by Proposition 98 in 1988.

Due to provisions of Proposition 13, a two-thirds vote of district residents is required to implement a parcel tax. In 2004-2005, 68 districts imposed such a tax. In 20 of those districts, the tax raised more than $1,000 per student. None of these 20 districts had more than 10,000 students, however, and districts with a parcel tax constituted less than 6 percent of state enrollment. As a consequence, parcel tax revenue was only $25 per student statewide, less than 1 percent of district revenue. Other local revenue, such as fees, interest, and leases, was less than 3 percent of district revenue.

The revenue limit concept also guides the system for allocating tax revenue to county offices and charter schools. Like school districts, county offices have revenue limits: a set of limits for the different types of schools they operate and a limit for the administrative task of district oversight. These revenue limits determine a county office’s revenue limit entitlement, and the difference between that entitlement and its property tax revenue determines its state aid. Funding for charter schools operates in the same manner, with state aid equal to an entitlement less property tax revenue. A charter school’s property tax allocation is a pro rata share of the property tax revenue allocated to the district in which it is located.

The revenue allocated through each of these different channels is determined by the legislature. In the case of revenue limit funding, annual increases are given by statutes dating back to the beginning of the revenue limit system. However, the legislature can always provide more or less revenue than these statutory increases by amending the statutes. Appropriations for the various categorical programs are determined each year through the state’s annual budget.

While the legislature has considerable discretion in the allocation of funds through these programs, the total allocation to K-12 education (and community colleges) is subject to a constitutional minimum established by Proposition 98 in 1988. Though there are a number of qualifications, the essence of the Proposition 98 guarantee is that public schools, county offices, and community colleges must receive revenue each year from state and local sources that is at least equal to the revenue they received in the previous year, adjusted for growth in enrollment and per capita income. The revenue counted in this guarantee includes revenue limit funds, both state aid and property taxes, and funds in state categorical programs. It excludes other local and federal revenue. Because most school resources are personnel, because the salary and benefits of personnel tend to increase at the same rate as per capita income, and because the guarantee covers more than 80 percent of district revenue, the Proposition 98 guarantee prevents school resources per student from falling significantly over time.

While this guarantee provides stability in school resources, it also means that legislative decisions about school revenue in one year have consequences for subsequent years. If, for example, the legislature were to increase revenue in one year above the Proposition 98 guarantee, it would be adding that increase to the guarantee for all subsequent years and thus making a commitment to continue that funding increase. Because of these consequences, the legislature must be understandably reluctant to increase school funding above the guarantee.

Revenue and Resources: California Compared to Other States

The revenues provided to schools determine the resources they can employ. Judged by the standards of other states, the California school finance system just described delivers a rather modest level of school resources. In 2004-2005, California schools had just 70 percent of the staff per student of schools in the rest of the country. This deficit is a result of relatively low expenditures per student and relatively high compensation of school district employees.

These implications are detailed in Table 1. In 2004-2005, California schools spent $8,002 per
student. This figure includes current operating expenditures from local, state, and federal sources. It excludes capital outlays. Eighty-one percent of that total, $6,489, was for the salaries and benefits (compensation) of school district employees. Compensation for school district employees averaged $72,743, implying a staff-student ratio of 0.89 ($6,489/$72,743). In contrast, in the rest of the country, current expenditures were $670 per student higher than in California. As in California, roughly 80 percent of that total was for salaries and benefits. However, compensation averaged $55,031 per school district employee, 24 percent lower than in California, yielding a staff-student ratio of 0.129. In the rest of the country, there were 129 staff people per 1,000 students. In California, there were 89 staff people per 1,000 students, a deficit of 30 percent. As shown in Gordon and co-authors (2007), this deficit exists in all major employee categories: teachers, administrative staff, and support staff.

Table 1 also shows the decomposition of expenditures per student for four other large states. Florida and Texas have lower expenditures per student than California, but they also have lower staff compensation. Thus, despite their lower spending, those two states have staff-student ratios that are much higher than in California. On the other hand, New York has higher staff compensation than does California, but it also has much higher spending. As a result, it has staff-student ratios that are nearly 60 percent higher than in California.

California’s relatively low school resource levels are due not only to high staff compensation, but also to relatively low expenditures per student. To appreciate the factors affecting that measure, it is useful to decompose expenditure per student into two parts: expenditure per capita and students per capita. Expenditures per capita is a measure of the support taxpayers provide for their schools. Students per capita is a measure of the cost to the average taxpayer of providing a given level of resources to schools. The paths taken by these two measures over the last thirty years have important consequences for expenditures per student.

In the 1970s, before the transition from local to state finance, public school spending per capita was higher in California than in other states. In 1976-77, spending in California was $1,095 per capita, adjusted for 2005 dollars. In contrast, public school spending in all other states was $952 per capita in 2005, a gap of 15 percent.
fell faster in California, however, due in part to Proposition 13, reaching the level of other states in 1982-83. From that point, spending per capita followed the trend in other states, rising steadily until 1990-91. This rise ended with the recession of 1990-91, which was felt particularly hard in California. For the next three years, spending per capita fell while it continued to rise in other states. By 1994-95, real spending per capita was 10 percent lower in California than in other states.

This relative decline was reversed in the second half of the 1990s, spurred mainly by the economic recovery and the subsequent growth in state tax revenue. Real spending per capita in other states continued to rise, but it rose even faster in California. By the end of the decade, California was on par with other states. That relative increase continued for a few years in the early 2000’s, but was then reversed again in 2003-04 and 2004-05. At the end point in Figure 1, 2004-05, public school spending per capita in California was roughly equal to the level in other states.

Underlying the trends depicted in Figure 1 are fundamental economic forces: business downturns and unexpected budget shortages, economic expansions and sudden fiscal surpluses. Filtering out these cyclical forces, a simple pattern emerges. Before Proposition 13 and state finance, public school spending per capita was about 15 percent higher in California than in other states. After Proposition 13, it was approximately equal to spending in other states.

Though the revenue available for public schools will always be related to economic conditions, the need for revenue is also a factor. If the number of students in a state falls, less revenue will be necessary to provide schools with the resources they need. In fact, as Figure 2 shows, this factor surely explains much of the observed fall in real public school spending per capita in the late 1970s and early 1980s. From 1976-77 to 1984-85, the ratio of public school students to the general population fell by 20 percent in California. Other states experienced a fall of similar magnitude. Consequently, less revenue per capita was necessary to provide schools with the resources they needed.

Relative to schools in other states, conditions for California schools were not so favorable from 1984-85 onward. In California, students per capita rose by
14 percent. In the rest of the country, this ratio was essentially flat. To maintain the resource levels of its schools relative to those in other states, revenue per capita in California would have had to rise considerably relative to other states. As Figure 1 demonstrates, that did not happen.

The result is depicted in Figure 3. With revenue per pupil roughly equal to that in other states and students per capita rising relative to other states, real spending per pupil fell in California relative to other states. In fact, from 1990-91 through 1993-94, real spending per student in California declined each year. In 1993-94, spending was 12 percent lower than in other states. From that low point, however, spending per pupil in California increased at a faster rate than in the rest of the country. By 2004-2005, spending per pupil in California was 8 percent below the level in the rest of the country.

Over the nearly thirty years depicted in Figure 3, the net result has been a fall of more than 25 percent in spending per pupil in California schools relative to schools in other states. In 1976-77, California schools spent 19 percent more per student than schools in other states. In 2004-2005, they spent 8 percent less. This decline was due to two factors: a relative fall in real spending per capita and a relative increase in students per capita. The relative fall in expenditures per student in tandem with high staff compensation implies that California schools have relatively few resources per student.

Revenue and Resources: Variations Within California

Resource levels also vary among school districts within California. As with comparisons between California schools and schools in other states, resources may vary among California districts because revenue per student varies and staff compensation varies. This section briefly considers each of these sources.

To examine variations in total revenue per student, school districts are partitioned into 27 groups based on three factors that are likely to affect total revenue per pupil. The first is district type: elementary, high school, and unified. This factor is likely to be important because revenue limits were equalized within groups defined in part by district type. The second factor is district size, which is likely to affect total revenue because of the additional state aid for necessary small schools, most of which are in small districts, because small districts were separated from large districts in the equalization process, and because most excess tax districts are small. To partition districts by size, the districts of each type are broken into three groups with approximately the same number in each group.

The third factor is student poverty, specifically the percent of students living in families below the federal poverty threshold. This factor is likely to be important because many categorical programs are targeted for low-income students and English learners, who are also likely to be poor. Accordingly, districts of each type and size are further separated into three sub-groups: districts with fewer than 10 percent of students living in families below the federal poverty threshold, districts with 10 to 29 percent of students living in families below the federal poverty threshold, and districts with 30 percent or more of students living in families below the federal poverty threshold.

Over the nearly thirty years depicted in Figure 3, the net result has been a fall of more than 25 percent in spending per pupil in California schools relative to schools in other states. In 1976-1977, California schools spent 19 percent more per student than schools in other states. In 2004-2005, they spent 8 percent less.
poverty threshold, districts with between 10 and 20 percent of such students, and districts in which low-income students are more than 20 percent of total enrollment.

For each of these 27 groups, Table 2 presents average revenue per student in average daily attendance (ADA). For this purpose, revenue includes revenue limit funds, lottery funds, and all state categorical programs except adult education and child development. It excludes local revenue (other than property taxes) and all federal revenue.

The averages presented in Table 2 reveal important patterns in the allocation of revenue. Before discussing those patterns, however, it is important to note that the averages hide considerable variation among districts in the same group. For example, for large unified districts with more than 20 percent of students from poor families, the highest revenue is $8,110 per student in Los Angeles Unified and the lowest is $6,550 per student in Hemet Unified, a range of $1,560 per student. This range is typical for other groups of large districts—7 of the 9 groups had ranges less than $2,000 per student. However, the ranges are much larger for medium and small districts. Of those 18 groups of districts, 15 had ranges exceeding $2,000 per student.

Average revenue per student is clearly related to district size. For example, for elementary districts with fewer than 10 percent of students living in poverty, average revenue per student is $9,459 for districts with less than 250 ADA, $7,294 for districts with ADA between 250 and 1,500, and $6,648 for districts with more than 1,500 ADA. This pattern is repeated for elementary districts with higher percentages of low-income students, and for high school and unified districts of each type and poverty level. The only exception to this trend is for unified districts with more than 20 percent of students living in poverty. For these districts, average revenue per pupil for large districts is slightly higher than for medium-sized districts. More generally, it is the small districts that stand out in these comparisons. Revenue per student is quite similar for medium- and large-sized districts of each type and poverty level.

Revenue also varies significantly by district type. Comparing districts of the same size and poverty level, high school districts tend to have higher funding than elementary and unified districts. Focusing

| TABLE 2. Average State Revenue per Student, 2004-2005, By District Type, Size and Level of Student Poverty |
|--------------------------------------------------------|------------------|------------------|------------------|------------------|
| Number of Districts | Percent of Students in Poverty | Implicit Poverty Weight (%) | 0-10 | 10-20 | 20+ |  |
|----------------------|------------------|------------------|------------------|------------------|
| Elementary districts | | | | | | |
| Small (0-250 ADA) | 197 | 9,459 | 10,242 | 9,939 | 33.0 | |
| Medium (250-1,500 ADA) | 180 | 7,294 | 7,048 | 6,989 | -16.3 | |
| Large (1,500 ADA +) | 180 | 6,648 | 6,752 | 6,822 | 11.5 | |
| High School districts | | | | | | |
| Small (0-1,500 ADA) | 27 | 8,801 | 8,750 | 11,238 | 134.7 | |
| Medium (1,500- 6,000 ADA) | 27 | 8,232 | 7,601 | 8,005 | -13.0 | |
| Large (6,000 ADA +) | 29 | 7,837 | 7,462 | 7,973 | 10.7 | |
| Unified districts | | | | | | |
| Small (0-3,000 ADA) | 123 | 8,594 | 9,723 | 8,962 | 19.2 | |
| Medium (3,000- 10,000 ADA) | 104 | 6,833 | 6,858 | 6,992 | 10.6 | |
| Large (10,000 ADA+) | 107 | 6,650 | 6,829 | 7,112 | 32.7 | |
particularly on large districts of each type (districts that enroll nearly 80 percent of all students), revenue per student for elementary and unified districts is quite similar, but high school districts receive considerably more revenue per student.

Revenue is also related to student poverty, although the relationship varies by district type and size. Comparing districts in which fewer than 10 percent of students are in families below the federal poverty thresholds to districts in which more than 20 percent of students are poor, average revenue per student increases by $174 for large elementary districts, $136 for large high school districts, and $462 for large unified districts. However, for the analogous comparison, revenue per pupil actually decreases for medium-sized elementary and high school districts. The relationship between revenue and student poverty is far from uniform across groups of districts.

Other states target additional state revenue for low-income students. According to a study of such programs in 2001-2002, California targeted less funds for these students than most other states (Carey, 2002), a conclusion based on a particular method for measuring the impact of targeted programs. The method started by identifying the programs in each state targeting low-income students. It then divided the funds in these programs by the number of low-income students in the state. This ratio was divided by total state funding per student to derive an implicit poverty weight, which may be interpreted as the percentage increase in funding a district experiences for each student identified as low-income. California’s implicit poverty rate was 5.5 percent, and the average for all states was 15.1 percent. For the four other large states to which California is typically compared, the weights were 0 percent for Florida, 27.7 percent for Texas, 22.3 percent for Illinois, and 19.6 percent for New York.

While this method of calculating poverty weights is informative, it depends on an accurate identification of targeted programs. This is difficult for California because many programs aim to provide additional resources to disadvantaged students. The study identified the most obvious program, Economic Impact Aid (EIA), but did not include other related programs. A different way to derive poverty weights is to infer them from information like that presented in Table 2. How much does revenue per pupil from all state programs increase as the percentage of low-income students increases? For example, for large unified districts, low-poverty districts averaged revenue per student of $6,650 and high poverty districts averaged $7,112 per student, a difference of $462. For the former districts, the percentage of low-income students averaged 26.23 percent. For the latter, the average was 6.34 percent. Thus, an increase in the poverty rate of 19.89 percentage points increases revenue by $462, a rate of $2,322 ($462/0.1989) per low-income students. Expressed as a percentage of average revenue for low poverty districts, the implicit poverty weight is 32.17 percent ($2,322/$6,650). The last column of Table 2 lists implicit poverty weights for other district types and sizes.

The revenue differences revealed in Table 2 lead to resource differences. The cost of personnel resources also differ substantially across regions of California, differences documented by Rose and Sengupta (2007). Using data on teacher salary and benefits from 2003-2004, they found that teacher compensation (salary plus benefits) varies by more than 20 percent across regions of the state. In 2003-2004, the average compensation for a teacher with 10 years of experience and 60 units of education beyond the bachelor’s degree surpassed $70,000 in Orange and Santa Clara Counties, but fell short of $58,000 in Sacramento, Placer, El Dorado, Yolo, and Butte Counties. As expected, teacher salaries are highly correlated with the salaries of non-teachers in a region because school districts must compete with other employers in the market for highly educated workers.
California may be entering a new era, however, an era in which school enrollment is expected to fall even as the state continues to grow. This fall in students per capita may create some room for new initiatives. California may be able to increase funding per student without increasing the average tax burden of residents.

Reforming California School Finance System

The transition from local to state finance in the 1970s was an abrupt and radical shift in policy, a shift due largely to external events. For the most part, school districts and the state legislature have spent the last 30 years adjusting to this new reality. This adjustment has been particularly difficult because of the rise in students per capita, a rise that strained state tax revenue and left little room for measures to smooth the transition from old policies to new ones.

California may be entering a new era, however, an era in which school enrollment is expected to fall even as the state continues to grow. This fall in students per capita may create some room for new initiatives. California may be able to increase funding per student without increasing the average tax burden of residents.

California has also been presented with a new set of priorities for spending that dividend. Those priorities are implicit in the state’s academic content standards and its system for measuring whether students are achieving those standards. Though this accountability system is still a work in progress, it has identified schools and school districts in which improvement is needed. Improvement will require more than additional resources, of course, but additional resources are likely to play an important role. In that sense, California’s new accountability system has identified important funding priorities.

The challenge facing the state is to use the fiscal dividend created by falling enrollment to address these funding priorities. Meeting this challenge will not be easy, but attempts to do so are more likely to be successful if they embody three basic principles. The first is to allocate revenue according to need. Schools with many disadvantaged students have substantially lower rates of proficiency on statewide exams than other schools, implying that the state should direct more resources to those schools. Furthermore, schools in high-cost regions have fewer resources than other schools, implying that the state should direct more resources to districts in those regions.

The second principle is to increase transparency in the allocation of funds. California’s current system is so complicated that it is quite difficult to know how funds are actually allocated. Furthermore, the wide variation in revenue among districts with similar characteristics has created the perception that the allocation of revenue is fundamentally unfair, a perception that undermines efforts to hold all schools and students accountable to the same high standards.

The third principle is to increase local autonomy in the use of funds. Through its academic content standards and associated accountability system, the state has clearly articulated what it expects schools to achieve. This focus on outcomes means that the state can be less involved in prescribing how funds are spent. It should seize this opportunity. In a state as large and diverse as California, it is unlikely that one particular approach will work well in every school district. In such a state, it makes sense to describe what outcomes schools are to achieve and give districts considerable leeway in how they achieve those objectives.

These three principles are embodied in two recent proposals to reform California’s school finance system. The first comes from Bersin, Kirst and Liu (2007), and the second comes from the Governor’s Committee on Education Excellence (2007). Though there are differences between the two, both share a common approach. They would collapse the current maze of revenue programs into three simple programs: a base program, a targeted program, and a special education program. The base program would provide for the education of all students and would be allocated to districts in proportion to average daily attendance. The targeted program would be allocated...
according to the number of disadvantaged students. The special education program would remain essentially unchanged. Following the first principle, both proposals would significantly increase funds for disadvantaged students. Following the second and third principles, both proposals would allocate funds by simple formulas and remove restrictions on the use of funds.

Over the coming months, we will surely hear other reform proposals, but no reform is likely unless policy makers can visualize a path from the current system to a better alternative. The specifics of that path will depend on the ultimate destination, but some initial steps are likely to be the same, regardless of the destination. The remainder of this chapter briefly describes three steps that seem likely to be part of any transition, and that can be taken in the near term. These steps are thus mileposts by which California can measure its progress.

One step is to regularize the equalization of revenue limit funds. A district’s entitlement to revenue limit funds is determined by the product of its base revenue limit and its ADA. Certain adjustments and additions are then made to this amount to determine a district’s final entitlement. For historical reasons, base revenue limits differ among school districts as do additions and adjustments. As a result, the distribution of revenue limit funds, the likely foundation of any new school finance system, seems haphazard and unfair.

When additional funds have become available, the legislature has occasionally increased the limits of low-limit districts, reducing inequalities. However, significant equalization could become a regular part of the annual updating of base revenue limits. Currently, the base limits are updated for inflation each year according to provisions in state statutes. This annual updating also tends to equalize base limits because the same dollar amount is added to the limits of all districts. The equalization process could be accelerated by writing into statute larger annual increases for low-limit districts. As part of this regular equalization process, current additions and adjustments could be folded into base limits that would then be subject to annual equalization.

Other improvements to the equalization process are worth considering. One is to establish targets for the base revenue limit of each type of district and to accelerate revenue limit increases for districts with limits below their targets. By specifying a target instead of narrowing differences within groups, as is currently the practice, the state might correct inequities across groups. For example, it could increase the base rates of unified districts more rapidly than the rates of elementary and high school districts, correcting an inequity that currently exists. It could also establish different targets for different regions to adjust for regional differences in labor market conditions.

Whatever the method, the key idea is to make significant equalization a regular, annual affair, to make slow and steady progress towards a clearly articulated goal.

A second step is to reduce the number of categorical programs. One approach has been laid out by the Legislative Analyst’s Office (2008). The LAO would consolidate 35 categorical programs into three programs. It would also fold into base revenue limits six different funding streams: two categorical programs and four revenue limit adjustments.

Another approach to reducing categorical programs is to establish an annual review process. Each year a group established by the legislature would review existing categorical programs and propose a specified number for elimination. The legislature would then be obligated to vote on motions to terminate each of these programs. Funds for a terminated program could be rolled into the base revenue limit for each district, which would then be equalized over time.

A third step is to expand Economic Impact Aid (EIA). EIA is the state categorical program most directly focused on disadvantaged students. It has a long history, dating back to the early days of revenue limits and the state’s response to Serrano. The formula for allocating EIA grants was revised through its academic content standards and associated accountability system, the state has clearly articulated what it expects schools to achieve. This focus on outcomes means that the state can be less involved in prescribing how funds are spent. It should seize this opportunity.
by the legislature in 2006, and the program now has a reasonably clear funding formula. The program is a vehicle through which the state could direct more resources to schools with many disadvantaged students.

Each of these steps is really a process that the state could initiate at any time. None requires a large revenue investment in any one year. However, if followed steadily over time, California would soon find itself with a simpler and more rational school finance system.

References


Reinhard, Ray, Heather Rose, Ria Sengupta, and Jon Sonstelie, “Funding Formulas for California Schools II: An Analysis of a Proposal by the Governor’s Committee on Education Excellence,” Public Policy Institute of California, 2008.


Data Appendix

Figures 1, 2, and 3. Population and current expenditures of public schools in California and other states are from the U.S. Census Bureau’s Census of Governments. Public school enrollment in California and other states is from the National Center for Education Statistics, State Nonfiscal Survey of Public Elementary and Secondary Education.


Table 2. State revenue per ADA is from the PPIC School Finance Simulation Model described in “Funding Formulas for California Schools: Simulations and Supporting Data,” by Heather Rose, Ria Sengupta, Jon Sonstelie, and Ray Reinhard, Public Policy Institute of California, January 2008.

Endnotes

1 For a more complete description of California’s school finance system, see Goldfinger (1999), Sonstelie, Brunner, and Ardon (2000), and Timar (2006).

2 Goldfinger (1999) provides more details about the revenue limit system.

3 For more about California’s categorical programs, see Timar (2004).

4 Special education funding is coordinated through groups of districts organized as Special Education Local Plan Areas (SELPAs).

5 For more on Proposition 98, see Chapter 5 and Appendix D of Rose, Sonstelie, Reinhard, and Heng (2003).

6 For more on the distribution of revenue and resources across California school districts, see Loeb, Grissom, and Strunk (2006).

7 They differ, however, on another dimension of need: regional labor market differences.